

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                          |  |                   |
|--|--------------------------|--|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                          | Local Unit Name<br>City of Fennville             | County<br>Allegan |
| Fiscal Year End<br>6-30-07   | Opinion Date<br>10-24-07 | Date Audit Report Submitted to State<br>11-27-07 |                   |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

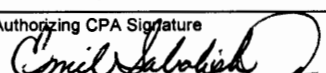
**US**  
**1**

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |
|--|-------------------------------------|--|-------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |             |
| Financial Statements   | <input checked="" type="checkbox"/> |  |             |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |             |
| Other (Describe)   | <input type="checkbox"/>            |  |             |
| Certified Public Accountant (Firm Name)<br>Kieover, Scholma & Shumaker, PC                                       |                                     | Telephone Number<br>616-772-4615           |             |
| Street Address<br>205 E Main Street  |                                     | City<br>Zeeland                            | State<br>MI |
|  |                                     | Zip<br>49464                               |             |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Emil Sabolish, Jr.         |             |
|  |                                     | License Number<br>9304                     |             |

CITY OF FENNVILLE  
ALLEGAN COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2007

KIEKOVER, SCHOLMA & SHUMAKER, PC  
Certified Public Accountants  
Zeeland, Michigan

City of Fennville, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2007

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City of Fennville, Michigan  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2007

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**INDEPENDENT AUDITOR'S REPORT**

October 24, 2007

Honorable Mayor and  
Members of City Council  
City of Fennville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Fennville, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fennville, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fennville, Michigan, as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages II through VII and 21 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Kiekover, Scholma & Shumaker, PC*

## City of Fennville, Michigan

### Management's Discussion and Analysis

As management of City of Fennville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements that follow this section.

#### Financial Highlights

- The assets of City of Fennville exceeded its liabilities at the close of the most recent fiscal year by \$4,444,668 (*net assets*). Of this amount, \$1,625,421 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$486,105. Of this increase \$474,367 is attributable to the increase in net assets of the City's governmental activities while \$11,741 is attributable to the City's business-type (water and sewage disposal systems) activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$899,745, an increase of \$16,212 in comparison with the prior year. Approximately 51% of this total amount, \$456,564, is *available for spending* at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$386,178 or 78.3% of total general fund expenditures and transfers out.
- The City's total debt decreased by \$31,388 (9%) during the current fiscal year. This is the result of the City making its required scheduled debt service payments while incurring no new debt during the year.

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to City of Fennville's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer term view of the City's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City of Fennville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, economic development, and recreation and culture. The business-type activities of the City consist of water and sewage disposal systems.

The government-wide financial statements can be found on pages 1-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fennville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the City's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements tell how general government services like public safety were financed in the short term as well as what remains for future spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Fennville maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and the Local Street Fund, which are considered to be major funds, and for the Cemetery Perpetual Care Fund, which is considered to be a non-major fund.

The City adopts annual appropriated budgets for its General Fund, Major Street Fund, and Local Street Fund. Budgetary comparison statements have been provided for the General Fund, Major Street Fund, and Local Street Fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 3-5 of this report.

**Proprietary funds.** The City of Fennville maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewage disposal systems. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Fennville uses an internal service fund to account for equipment and vehicles. Because it predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, but provide more detail and information, such as cash flows. The proprietary fund financial statement provides information for the water and sewage disposal systems, which is considered to be a major fund of the City of Fennville.

The basic proprietary fund financial statement can be found on pages 6-8 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government in which the City acts solely as trustee or agent. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support City of Fennville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 9 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-20 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* presenting budgetary comparisons for the City's General Fund, Major Street Fund, and Local Street Fund, found on pages 21-24 of this report.

### **Financial Analysis of the City as a Whole**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fennville, assets exceeded liabilities by \$4.44 million at the close of the fiscal year ended June 30, 2007.

The largest portion of the City's net assets (53%) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City totaled \$443,181 and are reported in the governmental activities. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or grantor restrictions. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, and cemetery perpetual care. The remaining unrestricted net assets (\$1,625,421) may be used to meet the City's ongoing operations.

The following table shows, in a condensed format, the net assets of the City of Fennville as of June 30, 2007 and 2006.

**Table 1 - City of Fennville's Net Assets**

|  | Governmental<br>Activities |              | Business-Type<br>Activities |              | Total        |              |
|--|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
|  | 2007                       | 2006         | 2007                        | 2006         | 2007         | 2006         |
| Current and other assets                           | \$ 1,196,914               | \$ 1,326,692 | \$ 972,849                  | \$ 919,650   | \$ 2,169,763 | \$ 2,246,342 |
| Capital assets                                     | 1,250,119                  | 849,873      | 1,454,392                   | 1,470,198    | 2,704,511    | 2,320,071    |
| Total assets                                       | 2,447,033                  | 2,176,565    | 2,427,241                   | 2,389,848    | 4,874,274    | 4,566,413    |
| Long-term debt outstanding                         | 328,445                    | 359,833      | -                           | -            | 328,445      | 359,833      |
| Other liabilities                                  | 59,397                     | 231,905      | 41,764                      | 16,112       | 101,161      | 248,017      |
| Total liabilities                                  | 387,842                    | 591,738      | 41,764                      | 16,112       | 429,606      | 607,850      |
| Net assets:  |                            |              |                             |              |              |              |
| Invested in capital assets,<br>net of related debt | 921,674                    | 490,040      | 1,454,392                   | 1,470,198    | 2,376,066    | 1,960,238    |
| Restricted   | 443,181                    | 456,759      | -                           | -            | 443,181      | 456,759      |
| Unrestricted                                       | 694,336                    | 638,028      | 931,085                     | 903,538      | 1,625,421    | 1,541,566    |
|  | \$ 2,059,191               | \$ 1,584,827 | \$ 2,385,477                | \$ 2,373,736 | \$ 4,444,668 | \$ 3,958,563 |

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$1,372,000 for the current year, of which 21.0% was obtained from property taxes. Fees charged for services accounted for another 22.6% of the total, capital grants and contributions 26.4%, State shared revenues 10.7%, and operating grants another 9.7%. The balance of the City's revenues was primarily derived from interest earnings and other sources. The total cost of all programs and services at June 30, 2007 was approximately \$887,000. City expenses cover a wide range of services. For the current fiscal year, about 29.6% of the City's expenses related to general government services, 16.8% related to public safety, 12.3% related to public works and 36.6% related to the provision of water and sewage disposal services.

Net assets increased by \$474,364 for the City's governmental activities. This increase accounted for 97.6% of the total growth in net assets for the fiscal year. Net assets for business-type activities increased by \$11,741 during the year, accounting for the remaining 2.4% increase.



The following analysis highlights the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

**Table 2 - City of Fennville's Changes in Net Assets**

|   | Governmental<br>Activities |                   | Business-Type<br>Activities |                  | Total             |                   |
|---|----------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|
|   | 2007                       | 2006              | 2007                        | 2006             | 2007              | 2006              |
| <b>Program revenues</b>                 |                            |                   |                             |                  |                   |                   |
| Charges for services                    | \$ 27,803                  | \$ 37,166         | \$ 282,969                  | \$ 269,778       | \$ 310,772        | \$ 306,944        |
| Operating grants and contributions      | 131,533                    | 134,723           | 1,798                       | 13,189           | 133,331           | 147,912           |
| Capital grants and contributions        | 362,310                    | -                 | -                           | -                | 362,310           | -                 |
| <b>General revenues</b>                 |                            |                   |                             |                  |                   |                   |
| Property taxes                          | 287,551                    | 270,366           | -                           | -                | 287,551           | 270,366           |
| State shared revenues                   | 146,962                    | 151,473           | -                           | -                | 146,962           | 151,473           |
| Interest                                | 62,063                     | 48,223            | 51,601                      | 41,630           | 113,664           | 89,853            |
| Gain on sale of capital assets          | -                          | -                 | -                           | (10,406)         | -                 | (10,406)          |
| Other                                   | 17,495                     | 8,385             | -                           | -                | 17,495            | 8,385             |
| <b>Total revenues</b>                   | <b>1,035,717</b>           | <b>650,336</b>    | <b>336,368</b>              | <b>314,191</b>   | <b>1,372,085</b>  | <b>964,527</b>    |
| <b>Program expenses</b>                 |                            |                   |                             |                  |                   |                   |
| General government                      | 260,514                    | 264,058           | -                           | -                | 260,514           | 264,058           |
| Public safety                           | 149,196                    | 144,705           | -                           | -                | 149,196           | 144,705           |
| Public works                            | 108,882                    | 86,640            | -                           | -                | 108,882           | 86,640            |
| Community and economic<br>development   | 5,304                      | 3,522             | -                           | -                | 5,304             | 3,522             |
| Recreation and culture                  | 28,325                     | 27,634            | -                           | -                | 28,325            | 27,634            |
| Interest on long-term debt              | 10,482                     | 3,598             | -                           | -                | 10,482            | 3,598             |
| Water and sewage disposal               | -                          | -                 | 324,627                     | 302,076          | 324,627           | 302,076           |
| <b>Total expenses</b>                   | <b>562,703</b>             | <b>530,157</b>    | <b>324,627</b>              | <b>302,076</b>   | <b>887,330</b>    | <b>832,233</b>    |
| <b>Change before contributions</b>      | <b>473,014</b>             | <b>120,179</b>    | <b>11,741</b>               | <b>12,115</b>    | <b>484,755</b>    | <b>132,294</b>    |
| <b>Contributions to permanent funds</b> | <b>1,350</b>               | <b>3,600</b>      | <b>-</b>                    | <b>-</b>         | <b>1,350</b>      | <b>3,600</b>      |
| <b>Change in Net Assets</b>             | <b>\$ 474,364</b>          | <b>\$ 123,779</b> | <b>\$ 11,741</b>            | <b>\$ 12,115</b> | <b>\$ 486,105</b> | <b>\$ 135,894</b> |

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$899,745 an increase of \$16,212 from the prior year. Approximately 51% of this amount (\$456,564) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for the maintenance of the City of Fennville's cemetery (\$156,451 non-expendable) and major and local streets (\$286,730).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year fund balance of the General Fund was \$386,178, all of which is unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance (\$386,178) represents 78% of total General Fund expenditures and transfers out (\$493,326).

The fund balance of the City's General Fund increased by \$29,790 during the current fiscal year. Total revenue sources increased by \$15,731 or 3.1%. Property taxes increased by \$17,185 or 6.4%. State shared revenues decreased by \$1,646 or 1.1%. Interest earnings increased by \$10,767 or 26.0%. General Fund expenditures increased by \$51,188 or 11.6%. Expenditures in all categories were stable as compared to fiscal 2006.

The Major Street Fund has a total fund balance of \$267,404, an increase of \$2,088 during the year. Total revenues increased by \$247,535 due mainly to Federal grant revenues of \$245,086. Major Street Fund expenditures increased by \$257,667 compared to the prior year due mainly to an increase in construction expenditures funded by the federal grant.

The Local Street Fund has a total fund balance of \$89,712 a decrease of \$17,016 during the year. Total revenue increased by \$123,480 due mainly to Federal grant revenues of \$117,224. Expenditures decreased by \$178,109 compared to the prior year due mainly to an increase in construction expenditures funded by the federal grant coupled with a decrease in construction expenditures for the Fennville Street reconstruction project that were incurred in the prior fiscal year.

**Proprietary Funds** – City of Fennville's proprietary funds provide the same type of information found in the government-wide financial statements (business-type activities) but in more detail. The City's proprietary funds are comprised of the Water and Sewage Disposal Systems Fund.

Unrestricted net assets of the Water and Sewage Disposal Systems Fund were \$931,085 at June 30, 2007, an increase of \$27,547 from the prior year. Combined operating revenues for the water and sewage disposal systems fund increased in fiscal 2007 by \$13,191 from \$269,778 to \$282,969. Combined operating expenses, excluding depreciation, for these funds, increased in fiscal 2007 by \$21,647 from \$227,362 to \$249,009.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council amended the budget to take into account events during the year resulting in an overall increase in budgeted expenditures of \$49,951. City operational departments stayed below budget overall, resulting in total expenditures \$27,610 below the final budget.

### **Capital Assets and Debt Administration**

At the end of fiscal 2007, the City had \$2,704,511 (net of depreciation) invested in a broad range of capital assets, including buildings, park land and improvements, sidewalks, road improvements, drains, and water and sewer lines.

Additional information on the City's capital assets can be found in note 3C on pages 17-18 of this report.

At June 30, 2007, the City had \$328,445 in long-term debt for governmental activities and no long-term debt for its business-type activities.

Additional information on the City's long-term debt can be found in note 3E on page 19 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for 2007-08 calls for no change in the overall property tax rate of 12.5584 mills. This can be accomplished because of the stable tax base and budgeted expenditures at essentially static levels compared to 2006-07. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City.

# Basic Financial Statements

City of Fennville, Michigan  
STATEMENT OF NET ASSETS  
June 30, 2007

|   | Primary Government      |                          |                         | Component Unit                 |
|---|-------------------------|--------------------------|-------------------------|--------------------------------|
|   | Governmental Activities | Business Type Activities | Total                   | Downtown Development Authority |
| <b>ASSETS</b>                                   |                         |                          |                         |                                |
| Cash and investments                            | \$ 1,128,546            | \$ 910,427               | \$ 2,038,973            | \$ 118,725                     |
| Receivables:                                    |                         |                          |                         |                                |
| Accounts  | 5,000                   | 62,422                   | 67,422                  | -                              |
| Due from other governments                      | 63,368                  | -                        | 63,368                  | -                              |
| Capital assets                                  | <u>1,250,119</u>        | <u>1,454,392</u>         | <u>2,704,511</u>        | <u>159,267</u>                 |
| <br>Total Assets                                | <br><u>2,447,033</u>    | <br><u>2,427,241</u>     | <br><u>4,874,274</u>    | <br><u>277,992</u>             |
| <br><b>LIABILITIES</b>                          |                         |                          |                         |                                |
| Accounts payable                                | 15,103                  | 34,714                   | 49,817                  | 885                            |
| Customer deposits                               | -                       | 7,050                    | 7,050                   | -                              |
| Due to other governments                        | 41,009                  | -                        | 41,009                  | -                              |
| Accrued interest payable                        | 3,285                   | -                        | 3,285                   | -                              |
| Noncurrent liabilities:                         |                         |                          |                         |                                |
| Due within one year                             | 32,330                  | -                        | 32,330                  | -                              |
| Due in more than one year                       | <u>296,115</u>          | <u>-</u>                 | <u>296,115</u>          | <u>-</u>                       |
| <br>Total Liabilities                           | <br><u>387,842</u>      | <br><u>41,764</u>        | <br><u>429,606</u>      | <br><u>885</u>                 |
| <br><b>NET ASSETS</b>                           |                         |                          |                         |                                |
| Invested in capital assets, net of related debt | 921,674                 | 1,454,392                | 2,376,066               | 159,267                        |
| Restricted:                                     |                         |                          |                         |                                |
| Perpetual care - nonexpendable                  | 156,451                 | -                        | 156,451                 | -                              |
| Major and local streets                         | 286,730                 | -                        | 286,730                 | -                              |
| Unrestricted                                    | <u>694,336</u>          | <u>931,085</u>           | <u>1,625,421</u>        | <u>117,840</u>                 |
| <br>Total Net assets                            | <br><u>\$ 2,059,191</u> | <br><u>\$ 2,385,477</u>  | <br><u>\$ 4,444,668</u> | <br><u>\$ 277,107</u>          |

City of Fennville, Michigan  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

| Function/Programs:                 | Program Revenues |                      |                                    | Net Revenue (Expense) and Changes in Net Assets |                         |                          |                |
|------------------------------------|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|----------------|
|                                    | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions                | Primary Government      |                          | Component Unit |
|                                    |                  |                      |                                    |   | Governmental Activities | Business Type Activities |                |
| Primary Government:                |                  |                      |                                    |   |                         |                          |                |
| Governmental Activities:           |                  |                      |                                    |   |                         |                          |                |
| General government                 | \$ 260,514       | \$ 27,803            | \$ -                               | \$ -  | \$ (232,711)            | \$ -                     | \$ -           |
| Public safety                      | 149,196          | -                    | -                                  | -   | (149,196)               | -                        | -              |
| Public works                       | 108,882          | -                    | 131,533                            | 362,310   | 384,961                 | -                        | -              |
| Community and economic development | 5,304            | -                    | -                                  | -   | (5,304)                 | -                        | -              |
| Recreation and culture             | 28,325           | -                    | -                                  | -   | (28,325)                | -                        | -              |
| Interest on long-term debt         | 10,482           | -                    | -                                  | -   | (10,482)                | -                        | -              |
| Total Governmental Activities      | 562,703          | 27,803               | 131,533                            | 362,310   | (41,057)                | -                        | -              |
| Business-type activities:          |                  |                      |                                    |   |                         |                          |                |
| Water and Sewage Disposal          | 324,627          | 282,969              | 1,798                              | -   | -                       | (39,860)                 | -              |
| Total Primary Government           | \$ 887,330       | \$ 310,772           | \$ 133,331                         | \$ 362,310                                      | (41,057)                | (39,860)                 | -              |
| Component Units:                   |                  |                      |                                    |   |                         |                          |                |
| Downtown Development Authority     | \$ 77,237        | \$ -                 | \$ -                               | \$ -  | -                       | -                        | (77,237)       |
| General revenues:                  |                  |                      |                                    |   |                         |                          |                |
| Property taxes                     |                  |                      |                                    |   | 287,551                 | -                        | 59,620         |
| State shared revenues              |                  |                      |                                    |   | 146,962                 | -                        | -              |
| Interest                           |                  |                      |                                    |   | 62,063                  | 51,601                   | 1,153          |
| Gain on sale of capital assets     |                  |                      |                                    |   | -                       | -                        | -              |
| Other                              |                  |                      |                                    |   | 17,495                  | -                        | -              |
| Contributions to permanent fund    |                  |                      |                                    |   | 1,350                   | -                        | -              |
| Total General Revenues             |                  |                      |                                    |   | 515,421                 | 51,601                   | 60,773         |
| Change in Net Assets               |                  |                      |                                    |   | 474,364                 | 11,741                   | (16,464)       |
| Net Assets - Beginning             |                  |                      |                                    |   | 1,584,827               | 2,373,736                | 293,571        |
| Net Assets - Ending                |                  |                      |                                    |   | \$ 2,059,191            | \$ 2,385,477             | \$ 277,107     |

City of Fennville, Michigan  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

|  | General<br>Fund   | Major<br>Street<br>Fund | Local<br>Street<br>Fund | Nonmajor<br>Permanent<br>Fund<br>Cemetery<br>Perpetual<br>Care | Total<br>Governmental<br>Funds |
|--|-------------------|-------------------------|-------------------------|--|--------------------------------|
| <b>ASSETS</b>                              |                   |                         |                         |  |                                |
| Cash and investments                       | \$ 414,128        | \$ 254,678              | \$ 85,992               | \$ 156,451   | \$ 911,249                     |
| Receivables:                               |                   |                         |                         |  |                                |
| Accounts                                   | 5,000             | -                       | -                       | -  | 5,000                          |
| Due from other governments                 | 20,340            | 12,767                  | 3,741                   | -  | 36,848                         |
| <b>Total Assets</b>                        | <b>\$ 439,468</b> | <b>\$ 267,445</b>       | <b>\$ 89,733</b>        | <b>\$ 156,451</b>  | <b>\$ 953,097</b>              |
| <b>LIABILITIES</b>                         |                   |                         |                         |  |                                |
| Accounts payable                           | \$ 12,281         | \$ 41                   | \$ 21                   | \$ -   | \$ 12,343                      |
| Due to other governments                   | 41,009            | -                       | -                       | -  | 41,009                         |
| <b>Total Liabilities</b>                   | <b>53,290</b>     | <b>41</b>               | <b>21</b>               | <b>-</b>   | <b>53,352</b>                  |
| <b>FUND BALANCES</b>                       |                   |                         |                         |  |                                |
| Reserved:                                  |                   |                         |                         |  |                                |
| Perpetual care-nonexpendable               | -                 | -                       | -                       | 156,451  | 156,451                        |
| Major and local streets                    | -                 | 236,990                 | 49,740                  | -  | 286,730                        |
| Unreserved-reported in:                    |                   |                         |                         |  |                                |
| General Fund                               | 386,178           | -                       | -                       | -  | 386,178                        |
| Special Revenue Funds                      | -                 | 30,414                  | 39,972                  | -  | 70,386                         |
| <b>Total Fund Balances</b>                 | <b>386,178</b>    | <b>267,404</b>          | <b>89,712</b>           | <b>156,451</b>   | <b>899,745</b>                 |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 439,468</b> | <b>\$ 267,445</b>       | <b>\$ 89,733</b>        | <b>\$ 156,451</b>  |                                |

Amount reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

|                        |         |
|------------------------|---------|
| General capital assets | 389,262 |
| Infrastructure assets  | 816,498 |

State shared revenues (sales taxes) collected and held by the State at year end are not considered available to pay for current year expenditures

26,520

Interest accrued on outstanding long-term debt is not reported in the funds

(3,285)

Long term liabilities are not due and payable in the current period and are not reported in the funds

(328,445)

Internal Service Funds are included as part of governmental activities

258,896

Net Assets of Governmental Activities

\$ 2,059,191

City of Fennville, Michigan  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended June 30, 2007

|   | General<br>Fund   | Major<br>Street<br>Fund | Local<br>Street<br>Fund | Nonmajor<br>Permanent<br>Fund<br>Cemetery<br>Perpetual<br>Care | Total<br>Governmental<br>Funds |
|---|-------------------|-------------------------|-------------------------|--|--------------------------------|
| <b>Revenues:</b>  |                   |                         |                         |  |                                |
| Taxes   | \$ 287,551        | \$ -                    | \$ -                    | \$ -   | \$ 287,551                     |
| Licenses and permits                                    | 4,231             | -                       | -                       | -  | 4,231                          |
| Federal grants  | -                 | 245,086                 | 117,224                 | -  | 362,310                        |
| State shared revenues                                   | 149,681           | 84,755                  | 46,778                  | -  | 281,214                        |
| Charges for services                                    | 16,162            | -                       | -                       | 1,350  | 17,512                         |
| Fines and forfeitures                                   | 831               | -                       | -                       | -  | 831                            |
| Interest and rent                                       | 52,236            | 5,225                   | 2,192                   | 5,379  | 65,032                         |
| Other   | 7,045             | 5,000                   | 5,000                   | -  | 17,045                         |
| <b>Total Revenues</b>                                   | <b>517,737</b>    | <b>340,066</b>          | <b>171,194</b>          | <b>6,729</b>   | <b>1,035,726</b>               |
| <b>Expenditures:</b>                                    |                   |                         |                         |  |                                |
| Current:  |                   |                         |                         |  |                                |
| General government                                      | 197,541           | -                       | -                       | -  | 197,541                        |
| Public safety   | 145,010           | -                       | -                       | -  | 145,010                        |
| Public works  | 30,696            | 316,371                 | 160,394                 | -  | 507,461                        |
| Community and economic development                      | 5,304             | -                       | -                       | -  | 5,304                          |
| Recreation and culture                                  | 19,232            | -                       | -                       | -  | 19,232                         |
| Insurance, bonds, fringes, and other                    | 95,543            | 4,107                   | 3,133                   | -  | 102,783                        |
| Debt service:   |                   |                         |                         |  |                                |
| Principal   | -                 | -                       | 31,388                  | -  | 31,388                         |
| Interest  | -                 | -                       | 10,795                  | -  | 10,795                         |
| <b>Total Expenditures</b>                               | <b>493,326</b>    | <b>320,478</b>          | <b>205,710</b>          | <b>-</b>   | <b>1,019,514</b>               |
| <b>Excess of Revenues<br/>Over (Under) Expenditures</b> | <b>24,411</b>     | <b>19,588</b>           | <b>(34,516)</b>         | <b>6,729</b>   | <b>16,212</b>                  |
| <b>Other Financing Sources (Uses):</b>                  |                   |                         |                         |  |                                |
| Transfers in  | 5,379             | -                       | 17,500                  | -  | 22,879                         |
| Transfers out   | -                 | (17,500)                | -                       | (5,379)  | (22,879)                       |
| <b>Total Other Financing Sources (Uses)</b>             | <b>5,379</b>      | <b>(17,500)</b>         | <b>17,500</b>           | <b>(5,379)</b>   | <b>-</b>                       |
| <b>Net Change in Fund Balances</b>                      | <b>29,790</b>     | <b>2,088</b>            | <b>(17,016)</b>         | <b>1,350</b>   | <b>16,212</b>                  |
| <b>Fund Balances - July 1</b>                           | <b>356,388</b>    | <b>265,316</b>          | <b>106,728</b>          | <b>155,101</b>   | <b>883,533</b>                 |
| <b>Fund Balances - June 30</b>                          | <b>\$ 386,178</b> | <b>\$ 267,404</b>       | <b>\$ 89,712</b>        | <b>\$ 156,451</b>  | <b>\$ 899,745</b>              |

See Notes to Financial Statements



City of Fennville, Michigan  
**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2007

|  |           |
|--|-----------|
| Net change in fund balances-Total Governmental Funds | \$ 16,212 |
|--|-----------|

Amounts reported for the governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

|  |          |
|--|----------|
| Current year capital outlays capitalized - land                          | 36,501   |
| Current year capital outlays capitalized - infrastructure capital assets | 417,723  |
| Current year depreciation expense on capitalized assets                  | (44,873) |

Timing of revenue recognition differs in the statement of activities versus the funds financial statements for certain revenues that do not provide current financial resources

|                       |         |
|-----------------------|---------|
| State shared revenues | (2,719) |
|-----------------------|---------|

Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

31,388

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due

313

Internal service funds are used by management to charge the costs of certain activities, such as equipment rental, to individual funds. The net revenue (expenses) of internal service funds is reported with governmental activities

19,819

|   |                   |
|---|-------------------|
| Change in net assets of governmental activities | <u>\$ 474,364</u> |
|---|-------------------|

City of Fennville, Michigan  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007

|                            | Enterprise<br>Fund                        | Internal<br>Service<br>Fund    |
|----------------------------|---|--------------------------------|
|                            | Water and<br>Sewage<br>Disposal<br>System | Revolving<br>Equipment<br>Fund |
| <b>ASSETS</b>              |   |                                |
| Current Assets:            |   |                                |
| Cash and investments       | \$ 910,427                                | \$ 217,297                     |
| Receivables:               |   |                                |
| Accounts                   | 62,422                                    | -                              |
| Total Current Assets       | 972,849                                   | 217,297                        |
| Noncurrent Assets:         |   |                                |
| Capital assets             | 1,454,392                                 | 44,359                         |
| Total Assets               | 2,427,241                                 | 261,656                        |
| <b>LIABILITIES</b>         |   |                                |
| Current Liabilities:       |   |                                |
| Accounts payable           | 34,714                                    | 2,760                          |
| Customer deposits          | 7,050                                     | -                              |
| Total Current Liabilities  | 41,764                                    | 2,760                          |
| Total Liabilities          | 41,764                                    | 2,760                          |
| <b>NET ASSETS</b>          |   |                                |
| Invested in capital assets | 1,454,392                                 | 44,359                         |
| Unrestricted               | 931,085                                   | 214,537                        |
| Total Net Assets           | \$ 2,385,477                              | \$ 258,896                     |

City of Fennville, Michigan  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2007

|   | Enterprise<br>Fund                        | Internal<br>Service<br>Fund    |
|---|---|--------------------------------|
|   | Water and<br>Sewage<br>Disposal<br>System | Revolving<br>Equipment<br>Fund |
| Operating Revenues                        |   |                                |
| Water sales                               | \$ 159,210                                | \$ -                           |
| Sewage disposal charges                   | 114,364                                   | -                              |
| Charges for services                      | 9,395                                     | 98,108                         |
| Total Operating Revenues                  | <u>282,969</u>                            | <u>98,108</u>                  |
| Operating Expenses                        |   |                                |
| Water production and purchases            | 116,533                                   | -                              |
| Waste treatment                           | 50,964                                    | -                              |
| Supplies and other operating expenses     | -   | 56,656                         |
| General and administrative                | 51,710                                    | -                              |
| Insurance, bonds, and fringes             | 29,802                                    | 3,616                          |
| Depreciation                              | 75,618                                    | 22,077                         |
| Total Operating Expenses                  | <u>324,627</u>                            | <u>82,349</u>                  |
| Operating Income (Loss)                   | <u>(41,658)</u>                           | <u>15,759</u>                  |
| Nonoperating Revenues                     |   |                                |
| Grants                                    | 1,798                                     | -                              |
| Interest income                           | 51,601                                    | 3,610                          |
| Gain (loss) on disposal of capital assets | -   | 450                            |
| Total Nonoperating Revenues               | <u>53,399</u>                             | <u>4,060</u>                   |
| Change in Net Assets                      | 11,741                                    | 19,819                         |
| Net Assets - July 1                       | <u>2,373,736</u>                          | <u>239,077</u>                 |
| Net Assets - June 30                      | <u>\$ 2,385,477</u>                       | <u>\$ 258,896</u>              |

City of Fennville, Michigan  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2007

|  | Enterprise<br>Fund                        | Internal<br>Service<br>Fund    |
|--|---|--------------------------------|
|  | Water and<br>Sewage<br>Disposal<br>System | Revolving<br>Equipment<br>Fund |
| Cash Flows From Operating Activities:  |   |                                |
| Receipts from customers  | \$ 277,725                                | \$ -                           |
| Receipts from interfund services provided  | -   | 98,108                         |
| Payments to suppliers  | (155,942)                                 | (38,048)                       |
| Payments to employees  | (67,415)                                  | (21,146)                       |
| Net Cash Provided By Operating Activities  | <u>54,368</u>                             | <u>38,914</u>                  |
| Cash Flows From Noncapital Financing Activities:   |   |                                |
| Grants   | <u>1,798</u>                              | <u>-</u>                       |
| Cash Flows From Capital and Related Financing Activities:                                  |   |                                |
| Acquisition and construction of capital assets   | (59,812)                                  | (12,972)                       |
| Proceeds from sale of capital assets   | <u>-</u>                                  | <u>450</u>                     |
| Net Cash Provided (Used) By<br>Capital and Related Financing Activities                    | <u>(59,812)</u>                           | <u>(12,522)</u>                |
| Cash Flows From Investing Activities:  |   |                                |
| Interest received on investments   | <u>51,601</u>                             | <u>3,610</u>                   |
| Net Increase in Cash and Investments   | 47,955                                    | 30,002                         |
| Cash and Investments - July 1  | <u>862,472</u>                            | <u>187,295</u>                 |
| Cash and Investments - June 30   | <u>\$ 910,427</u>                         | <u>\$ 217,297</u>              |
| Reconciliation of Operating Income to Net<br>Cash Provided By Operating Activities:        |   |                                |
| Operating income (loss)  | \$ (41,658)                               | \$ 15,759                      |
| Adjustments to reconcile operating income to net<br>cash provided by operating activities: |   |                                |
| Depreciation   | 75,618                                    | 22,077                         |
| Change in assets and liabilities:  |   |                                |
| Receivables  | (5,244)                                   | -                              |
| Accounts payable   | <u>25,652</u>                             | <u>1,078</u>                   |
| Net Cash Provided By Operating Activities  | <u>\$ 54,368</u>                          | <u>\$ 38,914</u>               |

City of Fennville, Michigan  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2007

|                                 | <u>Agency<br/>Fund</u> |
|---------------------------------|------------------------|
| <b>ASSETS</b>                   |                        |
| Cash and investments            | \$     55,358          |
| <b>LIABILITIES</b>              |                        |
| Due to Fennville Area Ambulance | \$     53,007          |
| Due to other governments        | <u>      2,351</u>     |
| <br>Total Liabilities           | <br>\$     55,358      |

City of Fennville, Michigan  
NOTES TO FINANCIAL STATEMENTS  
Year Ended June 30, 2007

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Fennville conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Fennville:

**A. Reporting Entity**

The City of Fennville is governed by an elected mayor and six-member council. The accompanying financial statements present the city and its component units, entities for which the city is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the city's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Blended Component Unit.** The city has no blended component units.

**Discretely Presented Component Unit.** The Fennville Downtown Development Authority, an entity legally separate from the city, is governed by a nine-member board appointed by the City Council. The Authority is fiscally dependent on the city because tax rates for the Downtown Development Authority district and bonded debt must be approved by the City Council. The Authority is presented as a governmental fund type. Separate financial statements for the Downtown Development Authority are not prepared. The Authority's financial activity is as reflected in these accompanying financial statements.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes (state shared revenues) collected and held by the State at year end on behalf of the city and paid to the city at the end of the following August are recognized as revenue in the year received. Such amounts are not normally received within 60 days of the end of the current fiscal year and are budgeted for use by the city in the year received. Other revenue is recorded when received.

The city reports the following major governmental funds:

*General Fund* - The General Fund is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Major and Local Street Funds* - The Major Street and Local Street Funds account for the resources of state gas and weight taxes that are restricted for use on major and local streets. They also account for monies received from special taxes levied for street improvement purposes and for monies received from General Fund contributions.

The city reports the following major proprietary funds:

*Water and Sewage Disposal Systems Fund* - This fund is used to account for the sale of water and treatment of wastewater to the residents of the City of Fennville.

Additionally, the city reports the following fund types:

#### **Governmental Funds**

*Permanent Fund* - The Permanent Fund is used to record the activity of the Cemetery Trust which provides funds for the perpetual care of cemetery lots.

#### **Proprietary Funds**

*Internal Service Fund* - The Internal Service Fund accounts for the rental of machinery and equipment to other departments, and related costs.

#### **Fiduciary Funds (Not included in government-wide statements)**

*Agency Funds* - Agency Funds account for assets held by the city in a purely custodial capacity. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The city has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of the inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the city's water and sewer functions and various other functions of the city. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewage disposal systems fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities, and Net Assets or Equity**

##### **1. *Bank Deposits and Investments.***

The city pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities. Exceptions to the pooled cash arrangement are the Current Tax Collection Fund cash account and the investments in the Cemetery Perpetual Care Fund.

For the purposes of the statement of cash flows, the proprietary fund types consider all transactions within the citywide cash management pool to be cash and cash equivalents. The cash management pool is used essentially as a demand deposit account and is treated the same as any other demand deposit account.

Investments are recorded at fair value. Interest is accrued and earnings in the pooled cash accounts are allocated quarterly to each fund based upon monthly balances of cash and investments.

##### **2. *Receivables and Payables.***

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The property tax receivable allowance is equal to 100 percent of the outstanding property taxes. No allowance for uncollectible accounts is considered for other receivables.

##### **3. *Inventories and Prepaid Items.***

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are not material and are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.



#### 4. *Capital Assets.*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. General infrastructure assets acquired prior to July 1, 2003, are not reported in the basic financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

| Assets                         | Years |
|--------------------------------|-------|
| Buildings and improvements     | 20-40 |
| Land improvements              | 5-10  |
| Machinery and equipment        | 5-15  |
| Office furniture and equipment | 5-20  |
| Vehicles                       | 3-25  |
| Roads and sidewalks            | 15-25 |
| Water and sewer systems        | 10-50 |

#### 5. *Compensated Absences.*

It is the city's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. It is the city's policy to pay 50% of accumulated sick pay to employees upon voluntary termination. If material, all vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations at year-end.

#### 6. *Long-Term Obligations.*

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. The city has no long-term obligations.

#### 7. *Fund Equity.*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **E. Property Taxes**

Property taxes are levied on each July 1 (lien date and due date) on the taxable valuation of property as of the preceding December 31. Real and personal property taxes are collected without additional charge from a period of 45 days from the date the bills are due. After that period of time, three percent penalty and interest at one percent per month are added to all unpaid taxes. The city continues to collect taxes until March 1, at which time the delinquent real property taxes are returned to the county for collection. The county's policy has been to pay the city for all delinquent real property taxes returned. The city continues to collect delinquent personal property taxes.

The city's 2006 ad valorem tax is levied and collectible on July 1, 2006, and is recognized as revenue in the year ended June 30, 2007, when the proceeds of this levy are budgeted and made available for the financing of operations.

The 2006 taxable valuation of the city totaled \$24,103,424, on which ad valorem taxes levied consisted of 12.5584 mills for operating purposes. This resulted in \$265,573 (after reduction of \$37,127 for taxes captured by the DDA) for operating purposes. This amount is recognized in the General Fund as tax revenue.

## **F. Use of Estimates**

The preparation of financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

## **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**State Construction Code Act** – The city oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The city contracts these inspection services to Michigan Township Services, an entity independent from the city. Michigan Township Services collects fees for these services directly from the inspection applicant. Accordingly, no revenue or expenses are recorded in the city's financial statements.

## **NOTE 3. DETAILED NOTES ON ALL FUNDS**

### **A. Deposits and Investments**

*Michigan Compiled Laws, Section 129.91*, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The governing body has designated several banks for the deposit of city funds. The investment policy adopted by the city in accordance with Public Act 196 of 1997 has authorized investment in all of the State statutory authority as listed above.

The city's deposits and investment policy are in accordance with statutory authority.

At year-end, the city's deposits and investments were reported in the basic financial statements in the following categories:

|                      | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Fiduciary<br/>Funds</u> | <u>Total</u>        | <u>Component<br/>Unit</u> |
|----------------------|------------------------------------|-------------------------------------|----------------------------|---------------------|---------------------------|
| Cash and investments | <u>\$ 1,128,546</u>                | <u>\$ 910,427</u>                   | <u>\$ 55,358</u>           | <u>\$ 2,094,331</u> | <u>\$ 118,725</u>         |

The breakdown between deposits and investments is as follows:

|  | <u>Primary<br/>Government</u> | <u>Component<br/>Unit</u> |
|--|-------------------------------|---------------------------|
| Bank Deposits (checking and savings accounts, certificates of deposit) | <u>\$ 1,050,198</u>           | <u>\$ 118,725</u>         |
| Investments in securities and money market accounts                    | <u>1,044,133</u>              | <u>-</u>                  |
| Total  | <u>\$ 2,094,331</u>           | <u>\$ 118,725</u>         |

### ***Deposits***

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned. The city does not have a deposit policy for custodial credit risk. At year end the bank balance of the city's deposits was \$1,061,641 of which \$600,000 was covered by federal depository insurance and \$461,641 was exposed to custodial credit risk because it was uninsured and uncollateralized. The component unit's entire bank balance of \$118,725 was uninsured and uncollateralized. The city believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the city evaluates each financial institution with which it deposits city funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### ***Investments***

The city chooses to disclose its investments by utilizing the specific identification method. As of June 30, 2007 the city had the following investments.

| <u>Investment</u>     | <u>Maturities</u> | <u>Fair Value</u>   |
|-----------------------|-------------------|---------------------|
| US Treasury note      | 2-29-08           | \$ 200,474          |
| Money market accounts | N/A               | <u>843,659</u>      |
| Total                 |                   | <u>\$ 1,044,133</u> |

***Interest rate risk.*** Except as limited by state law as listed in the above list of authorized investments the city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***Credit risk.*** The city has no investment policy that limits its investment choices beyond those required by state law. At year end the city had \$843,659 in permissible money market funds that are not separately rated.

***Custodial Credit Risk-Investments.*** For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the city will not be able to recover the value of its investments that are in the possession of the outside party. The city has not adopted a policy for investment custodial credit risk. As of June 30, 2007, the city's \$200,474 in investments in US Treasury Notes was held by a third party in the city's name. The city's investments in money market accounts totaling \$843,659 are not subject to risk categorization.

***Concentration of Credit Risk.*** State law does not limit and the city has not adopted a formal policy on the amount the city may invest in any one issuer. All investments held by the city at June 30, 2007 are either guaranteed by the US government or are in money market accounts.

## B. Receivables

Receivables as of year-end for the city's individual major funds, and non-major funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                              | <u>General</u>   | <u>Major<br/>Street</u> | <u>Local<br/>Street</u> | <u>Water and<br/>Sewage<br/>Disposal</u> | <u>Total</u>      |
|------------------------------|------------------|-------------------------|-------------------------|--|-------------------|
| Receivables:                 |                  |                         |                         |  |                   |
| Accounts                     | \$ 5,000         | \$ -                    | \$ -                    | \$ 62,422                                | \$ 67,422         |
| Intergovernmental            | <u>20,340</u>    | <u>12,767</u>           | <u>3,741</u>            | <u>-</u>                                 | <u>36,848</u>     |
| Gross receivables            | 25,340           | 12,767                  | 3,741                   | 62,422                                   | 104,270           |
| Allowance for uncollectibles | <u>-</u>         | <u>-</u>                | <u>-</u>                | <u>-</u>                                 | <u>-</u>          |
| Net Total Receivables        | <u>\$ 25,340</u> | <u>\$ 12,767</u>        | <u>\$ 3,741</u>         | <u>\$ 62,422</u>                         | <u>\$ 104,270</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the city reported no deferred revenue.

### C. Capital Assets

Capital asset activity of the primary government for the current year was as follows:

| <b>Governmental Activities</b>                          | <b>Beginning<br/>Balance</b> | <b>Increases</b>  | <b>Decreases</b> | <b>Completed<br/>Construction</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|-------------------|------------------|-----------------------------------|---------------------------|
| <b>Capital Assets Not Being Depreciated</b>             |                              |                   |                  |                                   |                           |
| Land  | \$ 86,206                    | \$ 36,501         | \$ -             | \$ -                              | \$ 122,707                |
| Construction in progress                                | <u>40,241</u>                | <u>-</u>          | <u>-</u>         | <u>(40,241)</u>                   | <u>-</u>                  |
| Subtotal  | <u>126,447</u>               | <u>36,501</u>     | <u>-</u>         | <u>(40,241)</u>                   | <u>122,707</u>            |
| <b>Capital Assets Being Depreciated</b>                 |                              |                   |                  |                                   |                           |
| Building and improvements                               | 530,084                      | -                 | -                | -                                 | 530,084                   |
| Land improvements                                       | 73,683                       | -                 | -                | -                                 | 73,683                    |
| Machinery and equipment                                 | 24,200                       | -                 | -                | -                                 | 24,200                    |
| Office furniture and equipment                          | 27,502                       | -                 | -                | -                                 | 27,502                    |
| Equipment-Revolving Equipment                           | 264,792                      | -                 | -                | -                                 | 264,792                   |
| Vehicles-Revolving Equipment                            | 223,742                      | 12,972            | (9,884)          | -                                 | 226,830                   |
| Office furniture and equipment<br>- Revolving Equipment | 51,627                       | -                 | -                | -                                 | 51,627                    |
| Infrastructure  | <u>384,738</u>               | <u>417,723</u>    | <u>-</u>         | <u>40,241</u>                     | <u>842,702</u>            |
| Subtotal  | <u>1,580,368</u>             | <u>430,695</u>    | <u>(9,884)</u>   | <u>40,241</u>                     | <u>2,041,420</u>          |
| <b>Less Accumulated Depreciation for</b>                |                              |                   |                  |                                   |                           |
| Buildings and improvements                              | (304,923)                    | (13,640)          | -                | -                                 | (318,563)                 |
| Land improvements                                       | (39,130)                     | (4,914)           | -                | -                                 | (44,044)                  |
| Machinery and equipment                                 | (13,433)                     | (1,920)           | -                | -                                 | (15,353)                  |
| Office furniture and equipment                          | (8,116)                      | (2,838)           | -                | -                                 | (10,954)                  |
| Equipment-Revolving Equipment                           | (251,522)                    | (6,726)           | -                | -                                 | (258,248)                 |
| Vehicles-Revolving Equipment                            | (196,235)                    | (9,132)           | 9,884            | -                                 | (195,483)                 |
| Office furniture and equipment<br>- Revolving Equipment | (38,940)                     | (6,219)           | -                | -                                 | (45,159)                  |
| Infrastructure  | <u>(4,643)</u>               | <u>(21,561)</u>   | <u>-</u>         | <u>-</u>                          | <u>(26,204)</u>           |
| Subtotal  | <u>(856,942)</u>             | <u>(66,950)</u>   | <u>9,884</u>     | <u>-</u>                          | <u>(914,008)</u>          |
| <b>Net Capital Assets Being Depreciated</b>             | <u>723,426</u>               | <u>363,745</u>    | <u>-</u>         | <u>40,241</u>                     | <u>1,127,412</u>          |
| <b>Governmental Activities Total</b>                    |                              |                   |                  |                                   |                           |
| Capital Assets - Net of Depreciation                    | <u>\$ 849,873</u>            | <u>\$ 400,246</u> | <u>\$ -</u>      | <u>\$ -</u>                       | <u>\$ 1,250,119</u>       |

| <b>Business-Type Activities</b>             | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Completed<br/>Construction</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|-----------------------------------|---------------------------|
| <b>Capital Assets Not Being Depreciated</b> |                              |                    |                  |                                   |                           |
| Land  | \$ 16,400                    | \$ -               | \$ -             | \$ -                              | \$ 16,400                 |
| Recra-Lan acquisition                       | <u>300,000</u>               | <u>-</u>           | <u>-</u>         | <u>-</u>                          | <u>300,000</u>            |
| Subtotal                                    | <u>316,400</u>               | <u>-</u>           | <u>-</u>         | <u>-</u>                          | <u>316,400</u>            |
| <b>Capital Assets Being Depreciated</b>     |                              |                    |                  |                                   |                           |
| Water systems                               | 1,666,241                    | -                  | -                | -                                 | 1,666,241                 |
| Sewage disposal systems                     | <u>775,245</u>               | <u>59,812</u>      | <u>-</u>         | <u>-</u>                          | <u>835,057</u>            |
| Subtotal                                    | <u>2,441,486</u>             | <u>59,812</u>      | <u>-</u>         | <u>-</u>                          | <u>2,501,298</u>          |
| <b>Less Accumulated Depreciation for</b>    |                              |                    |                  |                                   |                           |
| Water systems                               | (758,379)                    | (50,307)           | -                | -                                 | (808,686)                 |
| Sewage disposal systems                     | <u>(529,309)</u>             | <u>(25,311)</u>    | <u>-</u>         | <u>-</u>                          | <u>(554,620)</u>          |
| Subtotal                                    | <u>(1,287,688)</u>           | <u>(75,618)</u>    | <u>-</u>         | <u>-</u>                          | <u>(1,363,306)</u>        |
| <b>Net Capital Assets Being Depreciated</b> | <u>1,153,798</u>             | <u>(15,806)</u>    | <u>-</u>         | <u>-</u>                          | <u>1,137,992</u>          |
| <b>Business Type Activities Total</b>       |                              |                    |                  |                                   |                           |
| Capital Assets - Net of Depreciation        | <u>\$ 1,470,198</u>          | <u>\$ (15,806)</u> | <u>\$ -</u>      | <u>\$ -</u>                       | <u>\$ 1,454,392</u>       |

Depreciation expense was charged to programs of the primary government as follows:

|  |                  |
|--|------------------|
| <b>Governmental Activities</b>   |                  |
| General government   | \$ 10,144        |
| Public safety  | 4,740            |
| Public works   | 21,561           |
| Recreation and culture   | 8,428            |
| Internal service fund depreciation is charged to the<br>various functions based on their usage of the assets | <u>22,077</u>    |
| <b>Total Governmental Activities</b>   | <u>\$ 66,950</u> |
| <b>Business-Type Activities</b>  |                  |
| Water and sewage disposal  | <u>\$ 75,618</u> |

*Construction Commitments*-At June 30, 2007 the city had no significant construction commitments.

Capital asset activity of the Downtown Development Authority for the current year was as follows:

| <b>Component Unit - Downtown<br/>Development Authority</b>           | <b>Beginning<br/>Balance</b> | <b>Increases</b>  | <b>Decreases</b> | <b>Completed<br/>Construction</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|-------------------|------------------|-----------------------------------|---------------------------|
| <b>Capital Assets Not Being Depreciated</b>                          |                              |                   |                  |                                   |                           |
| Land   | \$ 78,067                    | \$ -              | \$ -             | \$ -                              | \$ 78,067                 |
| <b>Capital Assets Being Depreciated</b>                              |                              |                   |                  |                                   |                           |
| Buildings and improvements   | 112,000                      | -                 | -                | -                                 | 112,000                   |
| Less accumulated depreciation  | (28,000)                     | (2,800)           | -                | -                                 | (30,800)                  |
| <b>Net Capital Assets Being Depreciated</b>                          | <b>84,000</b>                | <b>(2,800)</b>    | <b>-</b>         | <b>-</b>                          | <b>81,200</b>             |
| <b>Component Unit Total Capital<br/>Assets - Net of Depreciation</b> | <b>\$ 162,067</b>            | <b>\$ (2,800)</b> | <b>\$ -</b>      | <b>\$ -</b>                       | <b>\$ 159,267</b>         |

#### D. Interfund Receivables, Payables and Transfers

At June 30, 2007, there were no interfund balances. Interfund transfers totaling \$5,379 were made from the Cemetery Perpetual Care Fund (Permanent Fund) to the General Fund during the year for operating purposes. The Major Street fund transferred \$17,500 in gas and weight taxes to the Local Street Fund as allowed by Act 51.

#### E. Long-Term Debt

Long-term debt activity for the city can be summarized as follows:

|   | <b>Original<br/>Issue</b> | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending<br/>Balance</b> | <b>Due Within<br/>One Year</b> |
|---|---------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| <b>Governmental Activities</b>  |                           |                              |                  |                   |                           |                                |
| General Obligation Debt   |                           |                              |                  |                   |                           |                                |
| State Infrastructure Bank Loan,<br>interest rate of 3%, maturing 2016 | \$ 359,833                | \$ 359,833                   | \$ -             | \$ (31,388)       | \$ 328,445                | \$ 32,330                      |

Annual debt service requirements to maturity for the above obligations are as follows:

| <b>Year Ended<br/>June 30,</b> | <b>Governmental Activities</b> |                  |
|--------------------------------|--------------------------------|------------------|
|                                | <b>Principal</b>               | <b>Interest</b>  |
| 2008                           | \$ 32,330                      | \$ 9,853         |
| 2009                           | 33,300                         | 8,883            |
| 2010                           | 34,299                         | 7,884            |
| 2011                           | 35,328                         | 6,855            |
| 2012                           | 36,388                         | 5,796            |
| 2013-2016                      | 156,800                        | 11,935           |
| <b>Total</b>                   | <b>\$ 328,445</b>              | <b>\$ 51,206</b> |

## **F. Operating Lease**

The city leases a copy machine under a non-cancelable operating lease agreement expiring September 30, 2008. Lease payments under this operating lease were \$3,923 for the year ended June 30, 2007. Future minimum lease payments for this operating lease are as follows:

| <u>Year ending June 30</u> | <u>Amount</u>   |
|----------------------------|-----------------|
| 2008                       | \$ 3,923        |
| 2009                       | 981             |
| Total                      | <u>\$ 4,904</u> |

## **G. Restricted Assets**

The city has no restricted assets at June 30, 2007.

## **NOTE 4. OTHER INFORMATION**

### **A. Risk Management**

The city is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the city carries full multi-peril insurance coverage underwritten by the Michigan Municipal Liability and Property Pool. The city is fully insured for workers compensation claims by coverage underwritten by the Michigan Municipal Workers Compensation Fund. Risk control techniques include the use of third party claims review, third party loss control services, and employee education and training programs. Settled claims for insurance have never exceeded the amount of coverage. There was no reduction of coverages obtained through insurance during the past year.

The Michigan Municipal League risk pool operates as a common risk-sharing program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **B. Deferred Compensation Plan**

The city offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of the plan were held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted for any other use. The Administrators are the agents of the employer for the purpose of providing direction to the custodian of the custodial accounts from time to time for the investment of the funds held in the account, transfer of the assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the city's financial statements.

### **C. Pension**

The city contributes to simplified employee pension (SEP) accounts covering all full-time employees. Contributions for the year were \$10,766. The city contributes an amount equal to 5% of covered payroll.



## Required Supplementary Information

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
Year Ended June 30, 2007

|                          | Budgeted Amounts |                | Actual         | Variance          |
|--------------------------|------------------|----------------|----------------|-------------------|
|                          | Original         | Final          | Amounts        | with Final Budget |
| <b>Revenues:</b>         |                  |                |                |                   |
| Taxes                    | \$ 249,200       | \$ 249,200     | \$ 287,551     | \$ 38,351         |
| Licenses and permits     | 4,300            | 4,300          | 4,231          | (69)              |
| State shared revenues    | 152,200          | 152,200        | 149,681        | (2,519)           |
| Charges for services     | 21,000           | 21,000         | 16,162         | (4,838)           |
| Fines and forfeitures    | 400              | 400            | 831            | 431               |
| Interest                 | 18,000           | 42,674         | 51,036         | 8,362             |
| Rents                    | 1,440            | 1,440          | 1,200          | (240)             |
| Other                    | 6,000            | 6,000          | 7,045          | 1,045             |
| Total Revenues           | <u>452,540</u>   | <u>477,214</u> | <u>517,737</u> | <u>40,523</u>     |
| <b>Expenditures:</b>     |                  |                |                |                   |
| Current:                 |                  |                |                |                   |
| General Government:      |                  |                |                |                   |
| Governing body           | 21,950           | 25,886         | 25,555         | 331               |
| Superintendent           | 21,800           | 21,800         | 21,852         | (52)              |
| Clerk                    | 20,920           | 20,920         | 21,691         | (771)             |
| Board of review          | 500              | 500            | 319            | 181               |
| Treasurer                | 33,505           | 33,505         | 33,710         | (205)             |
| Assessor                 | 4,000            | 4,000          | 3,194          | 806               |
| Elections                | 1,950            | 1,950          | 2,192          | (242)             |
| City Hall and Grounds    | 71,980           | 71,980         | 69,385         | 2,595             |
| Cemetery                 | 22,700           | 22,700         | 19,643         | 3,057             |
| Total General Government | <u>199,305</u>   | <u>203,241</u> | <u>197,541</u> | <u>5,700</u>      |
| Public Safety:           |                  |                |                |                   |
| Police patrol            | 84,799           | 84,799         | 80,526         | 4,273             |
| Crossing guard           | 3,230            | 3,230          | 552            | 2,678             |
| Fire services            | 54,439           | 54,439         | 49,438         | 5,001             |
| Emergency services       | 10,500           | 18,500         | 14,494         | 4,006             |
| Total Public Safety      | <u>152,968</u>   | <u>160,968</u> | <u>145,010</u> | <u>15,958</u>     |

City of Fennville, Michigan  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
Year Ended June 30, 2007

|  | Budgeted Amounts |            | Actual     | Variance   |
|--|------------------|------------|------------|------------|
|  | Original         | Final      | Amounts    | with Final |
|  |                  |            |            | Budget     |
| Public Works:                                |                  |            |            |            |
| Sidewalks                                    | 9,380            | 9,380      | 8,339      | 1,041      |
| Street lighting                              | 17,000           | 17,000     | 17,860     | (860)      |
| City clean-up                                | 5,655            | 5,655      | 4,497      | 1,158      |
| Total Public Works                           | 32,035           | 32,035     | 30,696     | 1,339      |
| Community and Economic Development:          |                  |            |            |            |
| Planning commission                          | 7,050            | 7,050      | 5,304      | 1,746      |
| Recreation and Culture:                      |                  |            |            |            |
| Parks  | 22,025           | 23,525     | 19,232     | 4,293      |
| Insurance, Bonds, Fringes, and Other:        |                  |            |            |            |
| Liability insurance                          | 7,500            | 7,500      | 7,963      | (463)      |
| Employee insurances                          | 42,875           | 42,875     | 44,201     | (1,326)    |
| Employee retirement                          | 6,150            | 6,150      | 5,814      | 336        |
| Other  | 1,077            | 37,592     | 37,565     | 27         |
| Total Insurance, Bonds, Fringes, and Other   | 57,602           | 94,117     | 95,543     | (1,426)    |
| Total Expenditures                           | 470,985          | 520,936    | 493,326    | 27,610     |
| Excess Of Revenues Over (Under) Expenditures | (18,445)         | (43,722)   | 24,411     | 68,133     |
| Other Financing Sources (Uses):              |                  |            |            |            |
| Trasnfers in                                 | 3,500            | 3,500      | 5,379      | 1,879      |
| Net Change in Fund Balances                  | (14,945)         | (40,222)   | 29,790     | 70,012     |
| Fund Balances - July 1                       | 356,388          | 356,388    | 356,388    | -          |
| Fund Balances - June 30                      | \$ 341,443       | \$ 316,166 | \$ 386,178 | \$ 70,012  |

City of Fennville, Michigan  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**  
Year Ended June 30, 2007

|  | Budgeted Amounts  |                   | Actual            | Variance          |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Original          | Final             | Amounts           | with Final Budget |
| <b>Revenues:</b>                             |                   |                   |                   |                   |
| Federal grants                               | \$ -              | \$ -              | \$ 245,086        | \$ 245,086        |
| State shared revenues                        | 82,147            | 82,147            | 84,755            | 2,608             |
| Interest                                     | 2,500             | 2,500             | 5,225             | 2,725             |
| Other  | -                 | 5,000             | 5,000             | -                 |
| Total Revenues                               | <u>84,647</u>     | <u>89,647</u>     | <u>340,066</u>    | <u>250,419</u>    |
| <b>Expenditures:</b>                         |                   |                   |                   |                   |
| Current:                                     |                   |                   |                   |                   |
| Public Works:                                |                   |                   |                   |                   |
| Construction                                 | -                 | 36,864            | 283,595           | (246,731)         |
| Surface maintenance                          | 13,870            | 13,870            | 8,264             | 5,606             |
| M-89 maintenance                             | 8,525             | 8,525             | 6,492             | 2,033             |
| Traffic services                             | 1,225             | 1,225             | 1,221             | 4                 |
| Winter maintenance                           | 11,830            | 11,830            | 12,080            | (250)             |
| Superintendent                               | 3,060             | 3,060             | 3,113             | (53)              |
| Administration                               | 1,505             | 1,505             | 1,606             | (101)             |
| Total Public Works                           | <u>40,015</u>     | <u>76,879</u>     | <u>316,371</u>    | <u>(239,492)</u>  |
| Insurance, bonds, and fringes:               |                   |                   |                   |                   |
| Employee insurances                          | 3,325             | 3,325             | 3,461             | (136)             |
| Employee retirement                          | 670               | 670               | 646               | 24                |
| Total Insurance, bonds, and fringes          | <u>3,995</u>      | <u>3,995</u>      | <u>4,107</u>      | <u>(112)</u>      |
| Total Expenditures                           | <u>44,010</u>     | <u>80,874</u>     | <u>320,478</u>    | <u>(239,604)</u>  |
| Excess Of Revenues Over (Under) Expenditures | 40,637            | 8,773             | 19,588            | 10,815            |
| Other Financing Sources (Uses):              |                   |                   |                   |                   |
| Transfers out                                | -                 | (17,500)          | (17,500)          | -                 |
| Net Change in Fund Balances                  | 40,637            | (8,727)           | 2,088             | 10,815            |
| Fund Balances - July 1                       | <u>265,316</u>    | <u>265,316</u>    | <u>265,316</u>    | <u>-</u>          |
| Fund Balances - June 30                      | <u>\$ 305,953</u> | <u>\$ 256,589</u> | <u>\$ 267,404</u> | <u>\$ 10,815</u>  |

City of Fennville, Michigan  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND  
Year Ended June 30, 2007

|  | Budgeted Amounts |           | Actual     | Variance          |
|--|------------------|-----------|------------|-------------------|
|  | Original         | Final     | Amounts    | with Final Budget |
| Revenues:                                    |                  |           |            |                   |
| Federal grants                               | \$ -             | \$ -      | \$ 117,224 | \$ 117,224        |
| State shared revenues                        | 43,050           | 43,050    | 46,778     | 3,728             |
| Interest                                     | 800              | 800       | 2,192      | 1,392             |
| Other  | -                | 5,000     | 5,000      | -                 |
| Total Revenues                               | 43,850           | 48,850    | 171,194    | 122,344           |
| Expenditures:                                |                  |           |            |                   |
| Current:                                     |                  |           |            |                   |
| Public Works:                                |                  |           |            |                   |
| Construction                                 | 6,000            | 19,700    | 134,129    | (114,429)         |
| Surface maintenance                          | 21,730           | 21,730    | 8,715      | 13,015            |
| Traffic services                             | 3,019            | 3,019     | 1,226      | 1,793             |
| Winter maintenance                           | 12,655           | 12,655    | 11,948     | 707               |
| Superintendent                               | 3,330            | 3,330     | 3,115      | 215               |
| Administration                               | 1,330            | 1,330     | 1,261      | 69                |
| Total Public Works                           | 48,064           | 61,764    | 160,394    | (98,630)          |
| Insurance, bonds, and fringes:               |                  |           |            |                   |
| Employee insurances                          | 2,630            | 2,630     | 2,702      | (72)              |
| Employee retirement                          | 460              | 460       | 431        | 29                |
| Total Insurance, bonds, and fringes          | 3,090            | 3,090     | 3,133      | (43)              |
| Debt Service:                                |                  |           |            |                   |
| Principal                                    | 27,209           | 31,388    | 31,388     | -                 |
| Interest                                     | 9,358            | 10,795    | 10,795     | -                 |
| Total Debt Service                           | 36,567           | 42,183    | 42,183     | -                 |
| Total Expenditures                           | 87,721           | 107,037   | 205,710    | (98,673)          |
| Excess Of Revenues Over (Under) Expenditures | (43,871)         | (58,187)  | (34,516)   | 23,671            |
| Other Financing Sources (Uses):              |                  |           |            |                   |
| Transfers in                                 | -                | 17,500    | 17,500     | -                 |
| Net Change in Fund Balances                  | (43,871)         | (58,187)  | (17,016)   | 23,671            |
| Fund Balances - July 1                       | 106,728          | 106,728   | 106,728    | -                 |
| Fund Balances - June 30                      | \$ 62,857        | \$ 48,541 | \$ 89,712  | \$ 23,671         |

City of Fennville, Michigan  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2007

**NOTE - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Before June 30, the proposed budget is presented to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and activity. Budgetary control over expenditures is exercised by the City Council. Appropriated budgets are amended by a majority vote of the City Council. The legal level of budgetary control is the activity level. The City Council made several supplemental budgetary appropriations throughout the year.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**B. Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the city incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

| Budget Items        | <u>Budget<br/>Appropriation</u> | <u>Actual<br/>Expenditure</u> |
|---------------------|---------------------------------|-------------------------------|
| General Fund        |                                 |                               |
| Superintendent      | \$ 21,800                       | \$ 21,852                     |
| Clerk               | 20,920                          | 21,691                        |
| Treasurer           | 33,505                          | 33,710                        |
| Elections           | 1,950                           | 2,192                         |
| Street lighting     | 17,000                          | 17,860                        |
| Liability insurance | 7,500                           | 7,963                         |
| Employee insurances | 42,875                          | 44,201                        |
| Major Street Fund   |                                 |                               |
| Construction        | 36,864                          | 283,595                       |
| Winter maintenance  | 11,830                          | 12,080                        |
| Superintendent      | 3,060                           | 3,113                         |
| Administration      | 1,505                           | 1,606                         |
| Employee insurances | 3,325                           | 3,461                         |
| Local Street Fund   |                                 |                               |
| Construction        | 19,700                          | 134,129                       |
| Employee insurances | 2,630                           | 2,702                         |

## Supplemental Data

City of Fennville, Michigan  
BALANCE SHEET  
DISCRETELY PRESENTED COMPONENT UNIT  
June 30, 2007

|   | <u>Downtown<br/>Development<br/>Authority</u> |
|---|---|
| <b>ASSETS</b>   |   |
| Current Assets:   |   |
| Cash and investments  | <u>\$ 118,725</u>                             |
| <br><b>LIABILITIES</b>  |   |
| Accounts payable  | \$ 885  |
| <br><b>FUND BALANCE</b>   |   |
| Unreserved  | <u>117,840</u>                                |
| <br>Total Net Assets  | <u>\$ 118,725</u>                             |
| <br><br>Component Unit Fund Balance   | <br><br>\$ 117,840                            |
| Amount reported for the component unit in the statement of net assets are different because:                          |   |
| Capital assets used in the component unit's activities are not financial resources and are not reported in the funds: |   |
| Capital assets  | <u>159,267</u>                                |
| <br>Net Assets of the Component Unit  | <br><u>\$ 277,107</u>                         |



City of Fennville, Michigan  
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES FUND BALANCE  
 DISCRETELY PRESENTED COMPONENT UNIT  
 Year Ended June 30, 2007

|   | Downtown<br>Development<br>Authority |
|---|--------------------------------------|
| Revenues  |                                      |
| Taxes   | \$ 59,620                            |
| Interest  | <u>1,153</u>                         |
| Total Revenues  | 60,773                               |
| Expenditures  |                                      |
| Current   |                                      |
| Public Works  | <u>74,437</u>                        |
| Net Change in Fund Balance  | (13,664)                             |
| Fund Balance - July 1   | <u>131,504</u>                       |
| Fund Balance - June 30  | <u>\$ 117,840</u>                    |
|   |                                      |
| Net change is fund balance - Component Unit   | \$ (13,664)                          |
| Amounts reported for the component unit's activities in the statement of activities are different because:  |                                      |
| The Component Unit reports capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation: |                                      |
| Current year depreciation expense on capitalized assets   | <u>(2,800)</u>                       |
| Change in net assets of the Component Unit  | <u>\$ (16,464)</u>                   |



October 24, 2007

City Council  
City of Fennville, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Fennville as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Fennville's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

### ***Our Responsibilities***

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

### ***Definitions Related to Internal Control Deficiencies***

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City.

### ***Identified Deficiencies in Internal Control***

**We believe the following deficiencies constitute material weaknesses.**

**Preparation of Financial Statements** – As is the case with many smaller and medium-sized governmental units, the City relies on its independent external auditors to assist in the preparation of the annual financial statements and related footnote disclosures. While the City generally understands all the information included in the annual financial statements, the City's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who by definition cannot be considered a part of the City's internal controls. As a result the City lacks internal controls over the preparation of annual financial statements in accordance with GAAP. We recommend no changes to this situation at this time as the City has determined it is more cost effective to continue to outsource this task to its external auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

**Auditor Adjustments** – Auditor adjustments in amounts material to the financial statements were necessary to 1) record CDBG grant reimbursements and expenditures in the appropriate funds and 2) adjust year-end receivables for water and sewer billings to actual amounts outstanding at year-end.

**Fixed Asset Accounting** - The City lacks controls and procedures to identify property and equipment acquired and constructed during the year that is subject to capitalization in accordance with the City's fixed asset capitalization policy. It is necessary for the auditor to propose adjustments to properly reflect this activity.

**Cash/Investments** - The City treasurer handles all incoming receipts, makes bank deposits, has the authority to invest City funds, and writes checks without significant oversight. The treasurer is also responsible for making all accounting entries. This results in the danger that intentional or unintentional errors could be made and not detected.

**Water and Sewer Billings** - The City clerk is the only person involved in the water and sewer billings, collections, and adjustments to customer accounts. This results in the possibility that intentional or unintentional errors could be made and not detected.

This communication is intended solely for the information and use of management, the City Council, and others in the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Kiekover, Scholma & Shumaker, PC*